

B. *GOVERNANCE PROCESS*

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POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *GOVERNANCE COMMITMENT*

The board, on behalf of benefit recipients and the other clients who have entrusted their funds to us, will:

- Lead the North Dakota Retirement and Investment Office (RIO) with a strategic perspective.
- Rigorously attend to its investment and oversight role.
- Continually improve its capability as a body to define values and vision.

Policy Implemented: June 23, 1995.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: GOVERNING STYLE

The board will govern with an emphasis on:

- Outward vision rather than an internal preoccupation.
- Encouragement of diversity in viewpoints.
- Strategic leadership more than administrative detail.
- Clear distinction of board and executive director roles.
- Collective rather than individual decisions.
- Future rather than past or present.
- Proactivity rather than reactivity.

The board will:

1. Cultivate a sense of group responsibility. The board, not the staff, will be responsible for excellence in governing. The board will be an initiator of policy, not merely a reactor to staff initiatives. The board will use the expertise of individual members to enhance the ability of the board as a body, rather than to substitute the individual judgments for the board's values.
2. Direct, control, and inspire the organization through the careful establishment of the broadest written policies reflecting the board's values and perspectives. The board's major focus will be on the intended long-term impacts outside the operating organization (*Ends*), not on the administrative or programmatic means of attaining those effects.
3. Enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, policy-making principles, respect of roles, and ensuring the continuity of governance capability.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: GOVERNING STYLE

4. After speaking with one voice, self-police any tendency to stray from adopted board governance policies. The board will allow no officer, member, or committee of the board to hinder or be an excuse for not fulfilling its commitments. The board respects the right of any member, as an individual, to publicly disagree with an adopted board policy. Board members will accurately portray board policies and decisions.
5. Promote continual board development through orientation and mentoring of new members in the board's governance process and through periodic board discussion of process improvement. The board shall not delegate new member governance orientation to the executive director or any staff member.
 - A. A board mentor, who is knowledgeable and who will assume responsibility for assisting the new members, will be assigned by the chairperson.
 - B. The new board member should read and study Chapter 21-10, North Dakota Century Code (Section J of the SIB Policy Governance Manual which governs the activities of the boards represented on the SIB: Teachers' Fund for Retirement Board, Public Employees Retirement Systems Board, and the State Investment Board).
 - C. The board should receive a glossary of terms used by the retirement and pension fund industry; i.e. Callan Associates Inc. - Glossary of Terms.
 - D. Newly appointed or elected board members should become familiar with the Carver Model of Governance, since the SIB directs its activities by this model. They should read Boards That Make a Difference and study the policy manuals that have been developed by the SIB and TFFR Board.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: GOVERNING STYLE

E. The board members must understand their roles as trustees and fiduciaries, the Prudent Investor Rule, and Procedural Prudence.

A "new trustee book bag" containing the Retirement and Investment Office's Comprehensive Annual Financial Report (CAFR) and reference materials relating to board governance, fiduciary conduct, and investment management concepts and terminology and other appropriate materials will be made available to new trustees.

F. The executive director will provide the SIB with a list of periodicals available which would provide current information on pension issues. The board members will review and request subscriptions to appropriate periodicals.

6. Monitor and regularly discuss the board's process and performance. Self-monitoring will include comparison of board activity and discipline to policies in the *Governance Process* and *Board-Staff Relationship* categories.

7. Observe Robert's Rules except where the board has superseded them.

Policy Implemented: June 23, 1995.

Amended: June 28, 1996; November 19, 1999, January 26, 2001.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: BOARD JOB DESCRIPTION

The function of the board is to make certain contributions that lead RIO toward the desired performance and ensure that it occurs. The board's specific contributions are unique to its trusteeship role and necessary for proper governance and management.

Consequently, the "products" or contributions of the board shall be:

1. The link between the SIB, its investment clients, and benefit recipients.
2. Written governing policies that, at the broadest levels, address:
 - A. *Ends:* Organizational products, impacts, benefits, outcomes, recipients, and their relative worth (what good for which needs at what cost).
 - B. *Executive Limitations:* Constraints on executive authority which establish the prudence and ethics boundaries within which all executive activity and decisions must take place.
 - C. *Governance Process:* Specification of how the board conceives, carries out, and monitors its own task.
 - D. *Board-Executive Director Relationship:* How authority is delegated and its proper use monitored: the executive director's role, authority, and accountability.
3. The assurance of executive director performance against above policies 2a and 2b.
4. Legislation necessary to achieve the board's *Ends*.

Policy Implemented: June 23, 1995.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *CHAIRPERSON'S ROLE*

The chairperson's primary responsibility is to insure the integrity of the board's process. The chairperson is the only board member authorized to speak for the board other than in specifically authorized instances.

1. The duty of the chairperson is to see that the board operates consistent with state law, administrative rules, and its own policies.
 - A. The board agenda will be the responsibility and be coordinated by the chairperson.
 - B. Meeting discussion content will only be those issues which, according to board policy, clearly belong to the board and not the executive director, or in a board member's opinion, may deal with fiduciary responsibilities.
 - C. Deliberation will be fair, open, and thorough, but also efficient, timely, orderly, and brief.
 - D. The chairperson shall appoint a parliamentarian.
2. The authority of the chairperson consists in making decisions that fall within the topics covered by board policies on *Governance Process* and *Board-Executive Director Relationship*, except where the board specifically delegates portions of this authority to others. The chairperson is authorized to use any reasonable interpretation of the provisions in these policies.
 - A. The chairperson is empowered to chair board meetings with all the commonly accepted authority of that position (e.g., ruling, recognizing).
 - B. The chairperson has no authority to make decisions about policies created by the board within *Ends* and *Executive Limitations* policy areas. Therefore, the chairperson has no authority to supervise or direct the executive director.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *CHAIRPERSON'S ROLE*

- C. The chairperson may represent the board to outside parties in announcing board-stated positions and in stating chairperson decisions and interpretations within the area delegated to the chairperson.
- D. The chairperson is authorized, in consultation with the RIO Executive Director, to grant approval for international travel by SIB members and to keep the board informed on travel requests.

Policy Implemented: June 23, 1995.

Amended: August 17, 2001.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: BOARD COMMITTEE PRINCIPLES

Unless specifically provided by governance policy, board committees will be assigned so as to minimally interfere with the wholeness of the board's job and so as never to interfere with delegation from board to executive director. Board committees will be used sparingly.

1. Board committees are to help the board do its job, not to help the staff do its job. Committees ordinarily will assist the board by preparing policy alternatives and implications for board deliberation. Board committees are created to advise the board, not the staff.
2. Board committees may not speak or act for the board except when formally given such authority for specific and time-limited purposes. Expectations and authority will be carefully stated in order not to conflict with authority delegated to the executive director.
3. Board committees cannot exercise authority over staff, however, committees will make requests of staff through the executive director unless staff is assigned to the committee. Because the executive director works for the full board, he or she will not be required to obtain approval of a board committee before an executive action. In keeping with the board's broader focus, board committees will normally not have direct dealings with current staff operations.
4. Board committees are to avoid over-identification with the committee's assignment. Therefore, a board committee which has helped the board create policy will not be used to monitor organizational performance on that policy.
3. This policy applies only to committees which are formed by board action, whether or not the committees include non-board members. It does not apply to committees formed under the authority of the executive director.
4. The chairperson will appoint board committees authorized by the board. The operational life span of a board committee will be defined at the time of appointment.

Policy Implemented: June 23, 1995.

Amended: November 22, 1996.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *STANDING COMMITTEES*

The board's standing committee is that which is set forth in this policy as follows:

1. Audit Committee

- A. The audit committee shall operate under the terms of a charter approved by the board.

INTRODUCTION

An Audit Committee has been established as a standing committee of the State Investment Board (SIB). The Audit Committee will assist the SIB in carrying out its oversight responsibilities as they relate to the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics.

The primary objective of the internal audit function is to assist the SIB and management in the effective discharge of their responsibilities. To this end, internal auditing will furnish them with analyses, appraisals, recommendations, and pertinent information concerning the activities reviewed.

Functions and units within RIO will be reviewed at appropriate intervals to determine whether they are effectively carrying out their responsibilities of planning, organizing, directing, and controlling in accordance with SIB and management instructions, applicable laws, policies, and procedures, and in a manner consistent with both the RIO objectives and high standards of administrative practice.

POLICY OF THE STATE INVESTMENT BOARD

The audit staff shall have full, free, and unrestricted access to all RIO activities, records, property, and personnel relative to the subject under review. The audit function will be conducted in a manner consistent with acceptable professional standards and coordinated with others to best achieve the audit objectives and the RIO objectives.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *STANDING COMMITTEES*

The Internal Audit Services Unit is responsible for developing and directing a broad, comprehensive program of internal auditing within RIO. The Internal Audit Services Unit will report administratively to management and functionally to the Audit Committee of the SIB.

The RIO unit supervisors are responsible for seeing that corrective action on reported weaknesses is either planned or taken within 30 days from the receipt of a report disclosing those weaknesses if known or applicable. The unit supervisors are also responsible for seeing that a written report of action planned or completed is sent to the executive director. If a plan for action is reported, a second report shall be made promptly upon completion of the plan.

Policy Implemented: June 23, 1995.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: ANNUAL BOARD PLANNING CYCLE

To accomplish its job outputs with a governance style consistent with board policies, the board will follow a biennial agenda which (a) completes a re-exploration of *Ends* policies annually and (b) continually improves its performance through attention to board education and to enriched input and deliberation.

1. A biennial calendar will be developed.
2. The cycle will conclude each year on the last day of June in order that administrative budgeting can be based on accomplishing a one-year segment of the most recent board long-range vision.
 - A. In the first three months of the new cycle, the board will develop its agenda for the ensuing one-year period.
 - B. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed.
3. Education, input, and deliberation will receive paramount attention in structuring the series of meetings and other board activities during the year.
 - A. To the extent feasible, the board will identify those areas of education and input needed to increase the level of wisdom and forethought it can give to subsequent choices.
 - B. A board education plan will be developed during July and August of each year.
4. The sequence derived from this process for the board planning year ending June 30 is as follows:
 - A. July: Election of officers, appoint audit committee, plan annual agenda, begin to develop board education plan, and new board member orientation.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: ANNUAL BOARD PLANNING CYCLE

- B. August: Investment Director review of investment policies and investment results, establish investment work plan, add investment education to education plan, and continue new board member orientation.
- C. October: Annual meeting for evaluation of RIO vs. *Ends* policies and annual board evaluation.
- D. November: Investment Director report on investment work plan.
- E. January: During second year of the biennium, begin to develop *Ends* policies for the coming biennium for budget purposes.
- F. February: Investment Director report on investment work plan.

Evaluation of executive director.
- G. March: During first year of biennium, set budget guidelines for budget development.
- H. May: Investment Director report on investment work plan.

Policy Implemented: June 23, 1995; November 19, 1999.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: BOARD MEMBERS' CODE OF CONDUCT

The following will be the Code of Ethical Responsibility for the SIB:

1. SIB members owe a duty to conduct themselves so as to inspire the confidence, respect, and trust of the SIB members and to strive to avoid not only professional impropriety but also the appearance of impropriety.
2. SIB members should perform the duties of their offices impartially and diligently. SIB members are expected to fulfill their responsibilities in accord with the intent of all applicable laws and to refrain from any form of dishonest or unethical conduct. Board members should be unswayed by partisan interest, public sentiment, or fear of criticism.
3. Conflicts of interest and the appearance of impropriety shall be avoided by SIB members. Board members must not allow their family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. Board members must refrain from financial and business dealings that tend to reflect adversely on their impartiality or interfere with the proper performance of their duties. If a conflict of interest unavoidably arises, the board member shall immediately disclose the conflict to the SIB. A board member must abstain in those situations where the board member is faced with taking some official action regarding property or a contract in which the board member has a personal interest. Conflicts of interest to be avoided include, but are not limited to: receiving consideration for advice given to a person concerning any matter over which the board member has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction for which the board member has acquired information unavailable to the general public, through participation on the board.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: BOARD MEMBERS' CODE OF CONDUCT

"Conflict of Interest" means a situation in which a board member or staff member has a direct and substantial personal or financial interest in a matter which also involves the member's fiduciary responsibility.

4. The board should not unnecessarily retain consultants. The hiring of consultants shall be based on merit, avoiding nepotism and preference based upon considerations other than merit that may occur for any reason, including prior working relationships. The compensation of such consultants shall not exceed the fair value of services rendered.
5. Board members must abide by North Dakota Century Code 21-10-09, which reads: "No member, officer, agent, or employee of the state investment board shall profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section shall be guilty of a class A misdemeanor."
6. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.
7. Political contributions are regulated under North Dakota Century Code 16.1-08-03 and are not restricted under this ethics policy.
8. All activities and transactions performed on behalf of public pension funds must be for the exclusive purpose of providing benefits to plan participants and defraying reasonable expenses of administering the plan.
9. Prohibited transactions. Prohibited transactions are those involving self-dealing. Self-dealing refers to the fiduciary's use of plan assets or material, non-public information for personal gain; engaging in transactions

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *BOARD MEMBERS' CODE OF CONDUCT*

on behalf of parties whose interests are adverse to the plan; or receiving personal consideration in connection with any planned transaction.

10. Violation of these rules may result in an official reprimand from the SIB. No reprimand may be issued until the board member or employee has had the opportunity to be heard by the board.

Policy Implemented: June 23, 1995.

Amended: January 22, 1999.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *ADMINISTRATION OF FIDUCIARY AUTHORITY*

The board is responsible for:

1. Proper exercise of fiduciary investment authority by RIO.
2. The determination of policies.
3. The investment and disposition of property held in a fiduciary capacity.
4. The direction and review of the actions of all officers, employees, and committees in the exercise of the board's delegated fiduciary authority.

Policy Implemented: June 23, 1995.

RECOMMENDATIONS REGARDING SIB/TFFR BOARD MEMBER EDUCATION

In order for a board member to function effectively as a fiduciary of the funds they are charged with overseeing, it is important for new and existing board members to understand their role and the terminology used in executing their duties.

New board members should commit to:

1. Attend a summary orientation at the Retirement and Investment Office with the executive director and the Public Employees Retirement System's executive director, at which time they will be presented with training and board materials contained in the "new trustee book bag."
2. After four to six months, attend another orientation meeting with the RIO staff to become familiar with the roles of each staff entity.

All board members should commit to:

1. Be present for the duration of all regularly scheduled meetings and training seminars scheduled for board education.
2. Attend the yearly investment manager performance review meetings. At least three board members should be in attendance at each performance review. Attendance will be scheduled on a rotating basis.
3. Attend the annual board planning retreat.
 - A. To participate in evaluating the board's work of the previous year against the stated *Ends* policies.
 - B. To assist in preparing the work plan for the next year and developing the planning calendar.
 - C. To plan for board education during the next year's meetings.
 - D. To plan for specific board education workshops or training seminars which make use of manager and consultant expertise.
4. Take responsibility as a mentor for new members.

5. Plan to attend at least one educational seminar, symposium, workshop, or conference per year on issues of board or trustee concerns each year.
 - IFE Conferences
 - Callan College or Callan Conferences
 - NEA Trustee Conferences
 - NCTR
 - Conferences on specific board needs, i.e. alternative investments, real estate, asset allocations.
6. Become familiar with how TFFR, RIO, and the SIB fit into the legislative process.
7. The board chairperson should appoint a board member to coordinate board education activities with the executive director and staff.
 - Discussion on how board will take charge of its business.
 - How will the board connect with its members?
 - Annual review and updating of board policies.
 - Checking policies against statutes.
 - Review for new board members the board's role.